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Message Text

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ACTION AF-08

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-01 L-03 NSC-05
PA-01 PRS-01 SS-15 DOTE-00 /081 W
----------120541Z 126439 /10
R 111511Z MAR 77
FM AMEMBASSY PRETORIA
TO SECSTATE WASHDC 7078
INFO AMCONSUL CAPE TOWN
AMCONSUL DURBAN UNN
AMCONSUL JOHANNESBURG UNN

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CAPE TOWN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, ECON, SF
SUBJECT: SHARP INCREASES IN INDIRECT TAXES AND RAIL RATES
ANNOUNCED

BEGIN UNCLASSIFIED

1. SUMMARY. COST OF LIVING IN SOUTH AFRICA RECENTLY RECEIVED TWO MAJOR JOLTS WITH ANNOUNCEMENTS IN PARLIAMENT OF LARGE INCREASES IN SALES AND EXCISE TAXES AND RAILWAY RATES. SALES TAXES INCREASED BY 25 PERCENT AND RAIL RATES ARE UP 16-22 PERCENT. INCREASES WILL AFFECT VIRTUALLY EVERY PRODUCT IN SOUTH AFRICA AND WILL PUT RENEWED PRESSURE ON INFLATION RATE WHICH HAD SLOWED IN RECENT MONTHS TO 10 PERCENT. BLACKS WILL FEEL FULL IMPACT OF PRICE INCREASES PARTICULARLY RAILWAY FARES AND SEVERAL BLACK LEADERS HAVE EXPRESSED CONCERN OVER IMPACT ON POORER BLACKS ALREADY SUFFERING FROM HIGH UNEMPLOYMENT. ENGLISH-LANGUAGE PRESS COMMENTED INCREASES LIKELY TO CON-
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TRIBUTE TO UNREST. REAL INCOMES OF BOTH WHITES AND BLACKS WILL COME UNDER FURTHER PRESSURE AS RESULT OF INCREASES. END SUMMARY.

2. ON MARCH 7, MINISTER OF FINANCE HORWOOD ANNOUNCED THAT SALES TAX RATES WOULD BE INCREASED BY 5 PERCENT. NEARLY ALL MANUFACTURED GOODS IN SOUTH AFRICA ARE SUBJECT TO SALES TAX

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WHICH IS PAID BY MANUFACTURER AT TIME OF SALE AND IS BASED
ON MANUFACTURERS SELLING PRICE. UNDER NEW STRUCTURE, MAXIMUM
RATES GO TO 33 PERCENT AND LOWEST RATES TO 8 PERCENT. NEW
RATES EXPECTED TO ADD AROUND R4 (ONE RAND EQUALS $1.15) TO
PRICE OF REFRIGERATOR AND R60 TO R200 TO PRICE OF A CAR.
EXCISE TAXES ALSO INCREASED, ADDING ONE CENT TO BOTTLE OF BEER,
2 CENTS TO PACK OF CIGARETTES AND FOUR CENTS TO BOTTLE OF WINE.
HORWOOD STATED TAX INCREASES WOULD YIELD AN ADDITIONAL R144
MILLION IN REVENUE DURING 1977/78 FISCAL YEAR. HORWOOD
EXPLAINED NEW RATES BEING IMPOSED PRIOR TO FULL BUDGET PRE-
SENTATION TO PREVENT SURGE OF BUYING JUST BEFORE BUDGET DAY.

3. ON MARCH 9, MINISTER OF TRANSPORT LOUWRENS ANNOUNCED IN
PARLIAMENT THAT RAIL FREIGHT RATES WOULD BE INCREASED BY
21.8 PERCENT AND RAIL PASSENGER FARES BY AN AVERAGE 16 PERCENT.
ALSO OIL PIPELINE RATES WOULD GO UP 20,7 PERCENT AND DOMESTIC
AIRFARES BY 15 PERCENT. LOUWREN REPORTED SOUTH AFRICAN RAILROADS
AND HARBORS (SAR&H) WILL END 1976/77 WITH R32 MILLION DEFICIT
DUE LARGELY TO SALARY INCREASES AND INCREASED PRICES FOR
MATERIALS AND FUEL. CAPITAL EXPENDITURES ARE BEING CUT BACK
AND OVERALL SAR&H BUDGET EXPECTED TO FALL FROM R1,236
MILLION IN 1976/77 TO R970 MILLION IN 1977/78. CENTRAL POSITION
OF RAIL SYSTEM MEANS INCREASED RAIL RATES WILL HAVE EFFECT
ON PRICES OF ALL GOODS INCLUDING FOOD. URBAN BLACKS WILL
PARTICULARLY FEEL INCREASE IN RAIL PASSENGER FARES IN VIEW
OF LARGE NUMBER WHO COMMUTE BY RAIL. MONTHLY COMMUTER'S TICKET
FOR SOWETO-JOHANNESBURG WILL RISE FROM R4.37 TO R5.00.

4. RAIL AND TAX INCREASES HAVE MET WITH STRONG NEGATIVE
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REACTION BOTH FROM WHITE BUSINESS FIGURES AND SEVERAL PROMINENT
BLACKS. ECONOMIC CRITICISM HAS FOCUSSED ON DANGER OF WEAKENING
ABILITY OF ECONOMY TO RECOVER FROM RECESSION; INCREASING
UNEMPLOYMENT AND FURTHER DOWNWARD PRESSURE ON REAL WAGES
AND LIVING STANDARDS CITED AS EXPECTED RESULT. FINANCIAL
JOURNALISTS ESTIMATE INCREASE WILL ADD ONE PERCENTAGE POINT
TO CPI ONCE IT WORKS THROUGH THE ECONOMY. BLACK LEADERS AND
SOME WHITE BUSINESS FIGURES HAVE POINTED TO EFFECT OF RAIL
INCREASES ON POORER URBAN BLACKS ALREADY FACED WITH DECREASING
JOB OPPORTUNITIES. RAND DAILY MAIL OBSERVED THAT INCREASES
WOULD INEVITABLY LEAD TO INCREASED URBAN BLACK BITTERNESS.

END UNCLASSIFIED

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5. COMMENT: FROM FINANCIAL AND BUDGETARY POINT OF VIEW, NEW
TAX AND RAIL RATES REFLECT NEW SITUATION SAG FACES. WITH
OVERSEAS BORROWING POSSIBILITIES GREATLY REDUCED IN COM-

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PARISON WITH PAST YEARS, BOTH SAG AND SAR&H ARE FORCED TO
FINANCE GREATER SHARE OF CURRENT AND CAPITAL EXPENDITURES
OUT OF CURRENT REVENUE. AS INCOMES OF WHITES HAVE DECLINED
IN REAL TERMS IN LAST 18 MONTHS AND INCOME TAX LEVELS (WHICH
AFFECT MOSTLY WHITES) ARE ALREADY AT UNPRECENDENTEDLY HIGH
LEVELS FOR SOUTH AFRICA, INDIRECT TAXES REPRESENTED ONLY
REMAINING ALTERNATIVE FOR SAG BARRING MAJOR CUTS IN DEFENSE
AND OTHER KEY EXPENDITURES. ON POLITICAL SIDE, SAG APPEARS
TO HAVE MADE JUDGMENT THAT REPERCUSSIONS AMONG BLACKS WILL
NOT BE TOO SEVERE. POLITICAL WISDOM OF NOT EXEMPTING FEW KEY
AREAS LIKE URBAN COMMUTER FARES IS OPEN TO QUESTION, HOWEVER.
DECISION WILL BE MORE DEFENSIBLE IF BUDGET AT END OF MARCH
CONTAINS SIGNIFICANT INCREASES IN SPENDING ON FACILITIES
IN BLACK URBAN AREAS.BOWDLER

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Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
Current Classification: UNCLASSIFIED
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Control Number: n/a
Copy: SINGLE
Sent Date: 11-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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